

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSALS FOR RE-ELECTION AND FOR RATIFICATION AND APPOINTMENT OF DIRECTORS THAT ARE SUBMITTED TO THE SHAREHOLDERS' MEETING****April 25, 2018**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report to justify the proposals for re-election and for ratification and appointment of Directors, which are submitted to the Shareholders’ Meeting for approval, pursuant to the provisions of article 529 decies of the Capital Companies Law.

Article 529 decies of the Capital Companies Law provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders’ meeting or, in the case of an expected vacancy, by the board itself by co-option.

2. Co-option at listed companies shall be governed by the provisions of this Law, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to shareholders’ meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next shareholders’ meeting.

3. There shall be no appointment of alternates at listed corporations.

4. The proposal for appointment or re-appointment of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. Proposals must be accompanied in all cases by an explanatory report by the board that assesses the competency, experience and merits of the proposed candidate, and such report shall be attached to the minutes of the shareholders’ meeting or the board meeting.

6. Proposals for the appointment or re-appointment of any non-independent director must also be preceded by a report by the appointments and compensation committee.

7. The provisions of this article shall also apply to the individuals who are appointed to be representatives of a corporate director. Proposals for the appointment of natural person representatives shall be subject a report by the appointments and compensation committee.”

Accordingly, the Capital Companies Law requires that the proposal for appointment or re-election of members of the Board of Directors be accompanied in any event by an explanatory report from the Board of Directors that assesses the competence, experience and merits of the candidates proposed, which will be attached to the minutes of the Shareholders' Meeting or of the board meeting and which, in accordance with article 518 of the same Law, must be published uninterruptedly on the corporate website as from the publication of the call notice.

As required by the Law, and with a view to greater transparency, this report assesses the competence, experience and merits of: i) Mr. Luiz Fernando Furlán, proposed to be re-elected as Director of the Company, with the classification of independent Director; ii) Mr. Francisco Javier de Paz Mancho, proposed to be re-elected as Director of the Company, with the classification of independent Director; iii) Mr. José María Abril Pérez, proposed to be re-elected as Director of the Company, with the classification of nominee Director; iv) Mr. Ángel Vilá Boix, proposed to be ratified and appointed as Director of the Company, with the classification of executive Director; v) Mr. Jordi Gual Solé, proposed to be ratified and appointed as Director of the Company, with the classification of nominee Director; and vi) Ms. María Luisa García Blanco, proposed to be ratified and appointed as Director of the Company, with the classification of independent Director; and this report also contains the rest of the information that the shareholders need to be able to cast their vote on the proposals made.

1. APPLICATION OF THE DIRECTOR SELECTION POLICY

At its meeting on November 25, 2015, the Board of Directors approved a Director Selection Policy that was updated on December 13, 2017, by a resolution of the Board of Directors. That resolution introduced the Diversity Policy applicable to the Board of Directors into such policy and, consequently, changed its name to that of the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors, which incorporates the latest statutory requirements on diversity matters.

Such Policy seeks to ensure that proposals for appointments and re-elections are based on a prior analysis of the Board's needs and favor a diversity of knowledge, professional training and experience, age, and gender, ensuring that such proposals are free from any implicit bias entailing any kind of discrimination, particularly by reason of gender, disability or any other personal condition.

In this respect, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee will ensure, within the scope of their respective powers, that the candidates chosen for the position of Director are persons of recognized caliber, competence and experience, who are willing to devote the time and effort required to perform their duties, taking special care in the selection of the persons to be appointed as Independent Directors.

In this regard, candidates for Director will be persons of recognized prestige, caliber, experience and training, especially in the telecommunications, economic/financial, accounting, auditing, risk management and/or business management fields, with the ability to lead teams made up of persons belonging to various fields of activity, and extensive knowledge of large companies.

The Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors sets out the process for selecting the directors of the Company and establishes that the Board of Directors must perform an annual evaluation of its functioning and that of its Committees, particularly evaluating diversity in the composition and competences of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, the Chief Executive Officer of the Company, and the various Directors, paying special attention to the heads of the various Board Committees, and it will adopt the appropriate measures for the improvement thereof.

The Board of Directors has verified that in the process of preparing and approving the proposals for re-election and for ratification and appointment of Directors that it intends to submit to the Shareholders' Meeting, the provisions of the Director Selection Policy have been complied with and a suitable and rigorous procedure has been followed to ensure that the proposals formulated by both the Board of Directors and the Nominating, Compensation and Corporate Governance Committee (with respect to the proposals affecting independent Directors) are in the best interest of the Company.

2. PROPOSALS RELATING TO THE COMPOSITION OF THE BOARD OF DIRECTORS

2.1. MR. LUIZ FERNANDO FURLÁN

Professional and biographical profile and noteworthy experience

Born in Brazil, on July 29, 1946.

Degrees in Chemical Engineering from the FEI (Industrial Engineering Faculty of Sao Paulo) and in Business Administration from the University of Santana de Sao Paulo, specializing in Financial Administration at the Getúlio Vargas Foundation in Sao Paulo.

He is currently a member of the Board of Directors of BRF, S.A. (Brazil) and Telefónica Brasil, S.A. (Brazil).

From 2003 to 2007 he was Minister for Industry, Development and Trade in the Brazilian Government.

Previously, he was Chairman of the Board of Directors of Sadia, S.A., Co-Chairman of the Board of Directors of BRF, S.A., a member of the Board of Directors of AGCO Corporation (USA), and a member of the Advisory Board of Panasonic (Japan), Wal-Mart (USA) and Abertis Infraestructuras, S.A. (Spain).

The Board of Directors of the Company considers that Mr. Luis Fernando Furlán's training and experience provide him with highly valuable and useful knowledge for performing his duties as Director of the Company.

Suitability and merits

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, his merits and competence to hold the position of Director, and his experience and knowledge in the various industries and issues that are relevant for the Company.

In particular, the Board has taken a very positive view of Mr. Luiz Fernando Furlán's experience, highlighting his prestigious professional career, in both the public and private sector, during which he has held various offices and positions in Brazil and other countries.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of the candidate for holding the position, meeting the requirements of business and professional good standing and appropriate knowledge and experience for performing his duties as Director of the Company.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company with the classification of independent Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent him from properly performing his duties.

Class of Director

Mr. Luiz Fernando Furlán has been proposed based on the personal and professional characteristics thereof, with the Nominating, Compensation and Corporate Governance Committee and the Board of Directors itself having verified that the candidate is not currently involved in any of the circumstances provided for in article 529 duodecies.4 of the Capital Companies Law and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. Furlán belongs to the class of independent Director.

Proposal of the Nominating, Compensation and Corporate Governance Committee

The proposal for re-election of Mr. Luiz Fernando Furlán as an independent Director of the Company comes from the Nominating, Compensation and Corporate Governance Committee, as appears in the report of such Committee dated April 24, 2018, which is attached as an exhibit to this report.

2.2. MR. FRANCISCO JAVIER DE PAZ MANCHO

Professional and biographical profile and noteworthy experience

Born in Valladolid, on July 24, 1958.

Degree in Information and Marketing. Law studies. Diploma in Senior Management from IESE (University of Navarra).

He is Chairman of Telefónica Ingeniería de Seguridad, S.A. and Director of Telefónica de Argentina, S.A., Telefônica Brasil, S.A. and Telefónica Móviles México, S.A. de C.V.

From September 2014 to March 2016, he was Chairman of Telefónica Gestión de Servicios Compartidos, S.A.U. From July 2006 to November 19, 2014 he was a Member of the Executive Committee of the High Council of Chambers of Commerce. From December 2008 to December 2012 he was Chairman of Atento Inversiones y Teleservicios, S.A. From 2004 to December 2007, he was Chairman of State-owned enterprise MERCASA. In addition, he has been Assistant to the Chairman and Head of Corporate Strategy of the Panrico Donuts Group (1996-2004), Managing Director of Internal Trade of the Ministry of Trade and Tourism (1993-1996), Secretary of the Spanish Consumers Union (UCE), Chief Executive Officer of the Magazine "Ciudadano" (1990-1993), and Secretary of the Young Socialists and Member of the Executive of the PSOE (1984-1993). He has also held the following positions and responsibilities: Director of Tunel of Cadí (2004-2006), Chairman of the Patronal Pan y Bollería Marca (COE) (2003-2004), Director of Mutua de Accidentes de Zaragoza (MAZ) (1998-2004), Director of the Panrico Group (1998-2004), Chairman of the Observatory of Trading of the Spanish Ministry of Trade and Tourism (1994-1996), Member of the Economic and Social Board and of its permanent Commission (1991-1993 and 1996-2000), and Director of Tabacalera, S.A. (1993-1996).

The Board of Directors of the Company considers that Mr. Francisco Javier de Paz Mancho's training and experience provide him with highly valuable and useful knowledge for performing his duties as Director of the Company.

Suitability and merits

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, his merits and competence to hold the position of Director, and his experience and knowledge in the various industries and issues that are relevant for the Company.

In particular, the Board has taken a very positive view of Mr. Francisco Javier de Paz Mancho's experience, highlighting his extensive professional career in diverse fields and spheres, in both the public and private sector, and his great capacity for managing, coordinating and leading teams.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of the candidate for holding the position, meeting the requirements of business and professional good standing and appropriate knowledge and experience for performing his duties as Director of the Company.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company with the classification of independent Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent him from properly performing his duties.

Class of Director

Mr. Francisco Javier de Paz Mancho has been proposed based on the personal and professional characteristics thereof, with the Nominating, Compensation and Corporate Governance Committee and the Board of Directors itself having verified that the candidate is not currently involved in any of the circumstances provided for in article 529 duodecies.4 of the Capital Companies Law and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. de Paz belongs to the class of independent Director.

Proposal of the Nominating, Compensation and Corporate Governance Committee

The proposal for re-election of Mr. Francisco Javier de Paz Mancho as an independent Director of the Company comes from the Nominating, Compensation and Corporate Governance Committee, as appears in the report of such Committee dated April 24, 2018, which is attached as an exhibit to this report.

2.3. MR. JOSÉ MARÍA ABRIL PÉREZ

Professional and biographical profile and noteworthy experience

Born in Burgos, on March 19, 1952.

Degree in Economics from the Deusto Business University and professor at such university for nine years.

In 2002 he was appointed as General Manager of Wholesale Banking and Investments and as Member of the Steering Committee of Banco Bilbao Vizcaya Argentaria, S.A.; he currently has pre-retirement status.

From 1975 to 1982 he was the Chief Financial Officer of Sociedad Anónima de Alimentación (SAAL). From then and until he joined Grupo Banco Bilbao Vizcaya Argentaria, he served as Chief Financial Officer of Sancel-Scott Iberica. In 1985 he joined Banco Bilbao as the Head of Corporate Banking Investment. Subsequently, from January to April 1993, he was Executive Coordinator of Banco Español de Crédito, S.A. In 1998 he was appointed as General Manager of the Industrial Group, and in 1999, as a member of the Management Committee of the BBV Group. He has been a board member, among other companies, of Repsol, Iberia and Corporación IBV, as well as Deputy Chairman of Bolsas y Mercados Españoles (BME).

The Board of Directors of the Company considers that Mr. José María Abril Pérez's training and experience provide him with highly valuable and useful knowledge for performing his duties as Director of the Company.

Suitability and merits

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, his merits and competence to hold the position of Director, and his experience and knowledge in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. José María Abril Pérez for holding the position, meeting the requirements of business and professional good standing and appropriate knowledge and experience for performing his duties as Director of the Company.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company with the classification of nominee Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent him from properly performing his duties.

Class of Director

Mr. José María Abril Pérez is proposed at the request of the shareholder Banco Bilbao Vizcaya Argentaria, S.A., owner of a holding, as of December 31, 2017, of 5.17% in the share capital of the Company and, therefore, is classified as a nominee Director.

Report of the Nominating, Compensation and Corporate Governance Committee

The favorable report of the Nominating, Compensation and Corporate Governance Committee dated April 24, 2018, on the proposed re-election of Mr. Abril Pérez is attached to this report as an exhibit.

2.4. MR. ÁNGEL VILÁ BOIX

Professional and biographical profile and noteworthy experience

Born in Burgos, on July 29, 1964.

He graduated in Industrial Engineering from Universitat Politècnica de Catalunya in Barcelona and holds a MBA from Columbia Business School, where he studied with a Fulbright La Caixa scholarship. He is a Trustee of the Telefónica Foundation.

Mr. Vilá joined Telefónica in 1997 and subsequently held the positions of Group Controller, CFO of Telefónica Internacional, Head of Corporate Development and Chief Financial and Corporate Development Officer. In 2015 he was appointed Chief Strategy and Finance Officer.

Prior to joining Telefónica, he held positions at Citigroup, McKinsey&Co, Ferrovial and Planeta.

In the financial sector, he has served on the Board of directors of Banco Bilbao Vizcaya Argentaria (BBVA) and on the Advisory Panel of Macquarie MEIF Infrastructure funds.

In the TMT sector (Technology, Media and Telecom), he was Chairman of Telefónica Contenidos, Deputy Chairman of Telco Spa (Italy) and a Board member of Endemol, Digital+, Atento, Telefonica Czech, CTC Chile, Indra SSI and Terra Lycos.

He was named Best CFO in European Telecoms in 2015 by Institutional Investor. He was named Best CFO in Spain in 2013 and 2014 and Best CFO for Telecommunications in Europe in 2014 by Thomson Reuters Extel.

The Board of Directors of the Company considers that Mr. Ángel Vilá Boix's training and experience provide him with highly valuable and useful knowledge for performing his duties as Director of the Company.

Suitability and merits

The Board of Directors has assessed that Mr. Ángel Vilá Boix has the knowledge, experience and professional profile required to contribute to the development of the Telefónica Group in the coming years and to face the challenges that will arise for the telecommunications industry.

Mr. Ángel Vilá Boix has had a long professional career at the Group, having held various offices and positions of responsibility in different areas, and he consequently has great knowledge of the Telefónica Group and its business. His huge technical precision and excellent skills in managing and coordinating teams are particularly noteworthy, having participated in major deals such as the acquisitions of O2, Brasilcel/Vivo, EPlus and GVT, and in the public offering of Telefónica Deutschland, among others.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Ángel Vilá Boix for holding the position, meeting the requirements of business and professional good standing and appropriate knowledge and experience for performing his duties as Director of the Company.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company with the classification of executive Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent him from properly performing his duties.

Class of Director

Mr. Ángel Vilá Boix is currently the Chief Operating Officer (C.O.O.) of Telefónica, S.A., and is therefore classified as an executive Director.

Report of the Nominating, Compensation and Corporate Governance Committee

The favorable report of the Nominating, Compensation and Corporate Governance Committee dated April 24, 2018, on the proposed ratification and appointment of Mr. Vilá Boix, is attached to this report as an exhibit.

2.5. MR. JORDI GUAL SOLÉ

Professional and biographical profile and noteworthy experience

Born in Lérida in 1957.

He has a PhD in Economics from the University of California at Berkeley (1987), is a professor of Economics at the IESE Business School, and a Research Fellow at the Centre for Economic Policy Research (CEPR) in London.

He has been Chairman of CaixaBank since July 2016. Previously, he was Head of Strategic Planning and Studies at CaixaBank and Director General of Planning and Strategic Development at CriteriaCaixa. He joined the “la Caixa” group in 2005.

He has served as an economic advisor at the European Commission’s Directorate-General for Economic and Financial Affairs in Brussels and as a visiting professor at the University of California at Berkeley.

He is currently a member of the Supervisory Board of Erste Group Bank, the Market Monitoring Group of the Institute of International Finance (IIF), and the Boards of Directors of Telefonica and Repsol. He is also a member of the Board of the European Corporate Governance Institute, Chairman of FEDEA, Vice President of the Círculo de Economía and serves on the boards of the CEDE Foundation, Institución Cultural del CIC, Real Instituto Elcano, and Fundación Cotec para la Innovación.

In 1999 he received the Research Award from the European Investment Bank, and was awarded the Special Degree Award in Economics and Business Studies in 1979.

The Board of Directors of the Company considers that Mr. Jordi Gual Solé’s training and experience provide him with highly valuable and useful knowledge for performing his duties as Director of the Company.

Suitability and merits

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, his merits and competence to hold the position of Director, and his experience and knowledge in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Jordi Gual Solé for holding the position, meeting the requirements of business and professional good standing and appropriate knowledge and experience for performing his duties as Director of the Company.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company with the classification of nominee Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent him from properly performing his duties.

Class of Director

Mr. Jordi Gual Solé is proposed at the request of the shareholder CaixaBank, S.A., owner of a holding, as of December 31, 2017, of 5.01% in the share capital of the Company and, therefore, is classified as a nominee Director.

Report of the Nominating, Compensation and Corporate Governance Committee

The favorable report of the Nominating, Compensation and Corporate Governance Committee dated April 24, 2018, on the proposed ratification and appointment of Mr. Gual Solé, is attached to this report as an exhibit.

2.6. MS. MARIA LUIS GARCÍA BLANCO

Professional and biographical profile and noteworthy experience

Born in Córdoba (Spain), on October 25, 1965.

She holds a law degree from the University of Córdoba (Spain).

Government lawyer. Class of 1992.

Partner at law firm Salama García Blanco, SLP (Government lawyer on leave of absence since October 2013), the main practices of the firm being: administrative and constitutional law, advice and technical defense of credit institutions, civil and commercial litigation, and arbitration.

Previously, she was Deputy Director-General of Constitutional Law and Human Rights and Government Lawyer-Head of the Constitutional Law and Human Rights Department, where she conducted constitutional law proceedings before the Constitutional Court (actions for unconstitutionality and jurisdictional conflicts

between the central government and regional governments, appeals for protection of constitutional rights, issues of unconstitutionality and the Bilateral Central-Regional Government Commission). Agent of the Kingdom of Spain before the European Court of Human Rights, where she has mainly performed the following activities: management and coordination of the Spanish delegation made up of representatives from the different Ministries for defense of the report by the Kingdom of Spain before the various UN Committees in nonjudicial proceedings (Committee against Torture; Universal Periodic Review of Spain by the Human Rights Council; Committee on the Rights of the Child; Human Rights Committee and Committee on the Elimination of Racial Discrimination; Defense of the Kingdom of Spain before the various UN Committees in individual claims and before the European Court of Human Rights in individual claims), and chief coordinator of the Spanish delegation before the various UN Committees in Geneva (2002-2013).

She was also previously a government lawyer at the Constitutional Court (2000-2002), in the Studies and Research Bureau of the Ministry of Justice (1999-2000), at the Ministry of Agriculture, Fisheries and Food (1993-1999), in Caceres (1992-1993), as a Member of the Caceres Provincial Just Compensation Panel. She has also worked as: Secretary of the Board of Directors of Sociedad Estatal de Infraestructuras Agrarias del Norte (SEIASA DEL NORTE), and of its Audit and Control Committee (1999-2010), Director of Sociedad Estatal de Infraestructuras Agrarias (SEIASA) (2010-2013), Director of Sociedad Estatal de Aguas de la Cuenca del Norte (ACUANORTE) (2009-2012) and of Sociedad Estatal de Aguas de las Cuencas de España (AcuaEs) (2012-2013), and has carried out coordination and cooperation activities for the promotion and defense of human rights in Uruguay (2006), Colombia (2007 and 2008), Chile (2009) and Guatemala (2010).

She holds the Cross of Honor of the Order of St. Raymond of Penyafort (2006) and is a Corresponding Member of the Royal Academy of Jurisprudence and Legislation (2014).

The Board of Directors of the Company considers that Ms. María Luisa García Blanco's training and experience provide her with highly valuable and useful knowledge for performing her duties as Director of the Company.

Suitability and Merits

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, her merits and competence to hold the position of Director, and her experience and knowledge in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Ms. María Luisa García Blanco for holding the position, meeting the requirements of business and professional good standing and appropriate knowledge and experience for performing her duties as Director of the Company.

In addition, independently of her recognized personal merits and abilities, the appointment of Ms. María Luisa García Blanco entails an increase in the number of women sitting on the Board of Directors, which evidences the Company's commitment to promoting diversity.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company with the classification of independent Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent her from properly performing her duties.

Class of Director

Ms. María Luisa García Blanco has been proposed based on her personal and professional characteristics, with the Nominating, Compensation and Corporate Governance Committee and the Board of Directors itself having verified that the candidate is not currently involved in any of the circumstances provided for in article 529 duodecies.4 of the Capital Companies Law and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Ms. García Blanco belongs to the class of independent Director.

Proposal of the Nominating, Compensation and Corporate Governance Committee

The proposal for ratification and appointment of Ms. María Luisa García Blanco as an independent Director of the Company comes from the Nominating, Compensation and Corporate Governance Committee, as appears in the report of such Committee dated April 24, 2018, which is attached as an exhibit to this report.

3. PROPOSALS FOR RE-ELECTION AND FOR RATIFICATION AND APPOINTMENT OF DIRECTORS

For all of the foregoing reasons, the Board of Directors finds that Mr. Luiz Fernando Furlán, Mr. Francisco Javier de Paz Mancho, Mr. José María Abril Pérez, Mr. Ángel Vilá Boix, Mr. Jordi Gual Solé, and Ms. María Luisa García Blanco have met the requirements of good standing, suitability, caliber, competence, qualifications, training, availability, and commitment to duties required to hold the position, and have not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, following a favorable report and at the proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposals for re-election, and for ratification and appointment of Directors, are made to the Shareholders' Meeting of the Company:

To re-elect Mr. Luiz Fernando Furlán as Director for the bylaw term of four years, following a proposal from the Nominating, Compensation and Corporate Governance Committee, with the classification of independent Director.

To re-elect Mr. Luiz Fernando Furlán as Director for the bylaw term of four years, following a proposal from the Nominating, Compensation and Corporate Governance Committee, with the classification of independent Director.

To re-elect Mr. José María Abril Pérez as Director for the bylaw term of four years, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, with the classification of nominee Director.

To ratify the appointment by co-option of Mr. Ángel Vilá Boix as Director, as resolved by the Board of Directors at its meeting held on July 26, 2017, and to appoint him as Director for the bylaw term of four years, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, with the classification of executive Director.

To ratify the appointment by co-option of Mr. Jordi Gual Solé as Director, as resolved by the Board of Directors at its meeting held on January 31, 2018, and to appoint him as Director for the bylaw term of four years, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, with the classification of nominee Director.

To ratify the appointment by co-option of Ms. María Luisa García Blanco as Director, as resolved by the Board of Directors at its meeting held on April 25, 2018, and to appoint her as Director for the bylaw term of four years, at the proposal of the Nominating, Compensation and Corporate Governance Committee, with the classification of independent Director.”

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Madrid, April 25, 2018

**REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE
GOVERNANCE COMMITTEE OF TELEFÓNICA, S.A.**

REGARDING

**THE PROPOSALS FOR RE-ELECTION AND FOR RATIFICATION AND
APPOINTMENT OF DIRECTORS TO BE SUBMITTED TO THE SHAREHOLDERS'
MEETING**

April 24, 2018

Article 529 of the Capital Companies Law establishes that proposals for the appointment or re-election of the members of the Board of Directors must be accompanied by an explanatory report from the Board that assesses the competence, experience and merits of the candidate proposed; and will also be preceded, in the case of proposals for the appointment or re-election of any non-independent Director, by a report from the appointments and compensation committee.

In addition, article 10.2 of the Regulations of the Board of Directors of Telefónica, S.A. (the “**Company**”) establishes that proposals for the appointment, re-election and ratification of Directors submitted by the Board of Directors for consideration at the Shareholders’ Meeting, and the resolutions appointing Directors adopted by the Board of Directors itself pursuant to the co-option powers attributed by law thereto, must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of independent Directors, by a corresponding proposal.

In accordance with such article, in the case of re-election or ratification, the report or proposal from the Nominating, Compensation and Corporate Governance Committee will contain an evaluation of the work and effective dedication to the position during the last period of time in which the proposed Director held the position.

Lastly, article 10.4 of the Regulations of the Board of Directors establishes that the outcome of the preliminary analysis of the Board’s needs shall be set out in the explanatory report of the Nominating, Compensation and Corporate Governance Committee, to be published upon the call of the Shareholders’ Meeting that is to ratify the appointment or reappointment of each Director.

In compliance with the above requirements, the Nominating, Compensation and Corporate Governance Committee has approved this global report on the proposals for re-election, and for ratification and appointment of Directors that, following a report from or at the proposal of the Nominating, Compensation and Corporate Governance Committee, are going to be submitted to the Company’s upcoming 2018 Shareholders’ Meeting, for the purposes of generally explaining the context of such proposals and setting out the prior analysis of the needs of the Board of Directors.

1. APPLICATION OF THE DIRECTOR SELECTION POLICY

At its meeting on November 25, 2015, the Board of Directors approved a Director Selection Policy that was updated on December 13, 2017, by a resolution of the Board of Directors. That resolution introduced the Diversity Policy applicable to the Board of Directors into such policy and, consequently, changed its name to that of the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors, which incorporates the latest statutory requirements on diversity matters.

Such Policy seeks to ensure that proposals for appointments and re-elections are based on a prior analysis of the Board's needs and favor a diversity of knowledge, professional training and experience, age, and gender, ensuring that such proposals are free from any implicit bias entailing any kind of discrimination, particularly by reason of gender, disability or any other personal condition.

In this respect, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee will ensure, within the scope of their respective powers, that the candidates chosen for the position of Director are persons of recognized caliber, competence and experience, who are willing to devote the time and effort required to perform their duties, taking special care in the selection of the persons to be appointed as Independent Directors.

In this regard, candidates for Director will be persons of recognized prestige, caliber, experience and training, especially in the telecommunications, economic/financial, accounting, auditing, risk management and/or business management fields, with the ability to lead teams made up of persons belonging to various fields of activity, and extensive knowledge of large companies.

The Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors sets out the process for selecting the directors of the Company and establishes that the Board of Directors must perform an annual evaluation of its functioning and that of its Committees, particularly evaluating diversity in the composition and competences of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, the Chief Executive Officer of the Company, and the various Directors, paying special attention to the heads of the various Board Committees, and it will adopt the appropriate measures for the improvement thereof.

The Nominating, Compensation and Corporate Governance Committee has verified that in the process of preparing and approving the proposals for re-election and for ratification and appointment of Directors that it intends to submit to the Shareholders' Meeting, the provisions of the Director Selection Policy have been complied with and a suitable and rigorous procedure has been followed to ensure that the proposals formulated by both the Board of Directors and the Nominating, Compensation and Corporate Governance Committee (with respect to the proposals affecting independent Directors) are in the best interest of the Company.

2. PROPOSALS RELATING TO THE COMPOSITION OF THE BOARD OF DIRECTORS

The proposals for re-election and for ratification and appointment of Directors that will be submitted to the next Shareholders' Meeting, informed by the Nominating, Compensation and Corporate Governance Committee (as regards the non-independent Directors) and, where appropriate, made by the Nominating, Compensation and Corporate Governance Committee (as regards independent Directors) are as follows:

- Re-election, for a new period of four years, of the Director Mr. Luiz Fernando Furlán, with the classification of independent Director.
- Re-election, for a new period of four years, of the Director Mr. Francisco Javier de Paz Mancho, with the classification of independent Director.
- Re-election, for a new period of four years, of the Director Mr. José María Abril Pérez, with the classification of nominee Director.
- Ratification of the appointment by co-option, and the appointment as Director, for the bylaw term of four years, of Mr. Ángel Vilá Boix, with the classification of executive Director.
- Ratification of the appointment by co-option, and the appointment as Director, for the bylaw term of four years, of Mr. Jordi Gual Solé, with the classification of nominee Director.
- Ratification of the appointment by co-option, and the appointment as Director, for the bylaw term of four years, of Ms. María Luisa García Blanco, with the classification of independent Director.

3. ANALYSIS OF THE COMPOSITION AND NEEDS OF THE BOARD OF DIRECTORS

3.1 The Board of Directors

Pursuant to the provisions of the Law and the Bylaws, the Board of Directors is the highest managing and representative body of the Company and is therefore empowered to perform, within the scope of the corporate purpose defined in the Bylaws, any acts or legal transactions of administration and disposition, by any legal means, except for those reserved by the Law or the Bylaws to the sole jurisdiction of the Shareholders' Meeting.

Notwithstanding the foregoing, the Board of Directors is basically configured as a supervisory and control body that entrusts the ordinary management of the Company's business to the executive bodies and the management team.

In the event that the proposals merit the approval of the Shareholders' Meeting, the Board of Directors will be composed of seventeen Directors, of whom two will be executive directors and the rest non-executive directors. Of the non-executive directors, nine will be considered independent, which will mean, in the event that

the proposal for appointment by co-option is approved by the Board of Directors, that the majority of the Board of Directors will be independent Directors. In addition, in such scenario, the number of women sitting on the Board of Directors will be preserved in keeping with the Company's commitment to promoting the diversity of its Board.

3.2 Evaluation of the Board of Directors, its committees and its members

Each year, all of the Directors evaluate the functioning of the Board of Directors and its advisory Committees, the performance of senior management and the functioning of the Shareholders' Meeting.

The Nominating, Compensation and Corporate Governance Committee then reviews and analyzes the results of the evaluation performed by the Directors, identifying those areas that could be improved. Following a detailed examination and analysis of the results obtained, the Nominating, Compensation and Corporate Governance Committee proposes to the Board of Directors the implementation of the suggestions and recommendations deemed appropriate.

With respect to the evaluation of the Board of Directors for fiscal year 2017, the Board of Directors of the Company, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, resolved that an external adviser, Villafañe & Asociados Consultores, will assist the Board of Directors of Telefónica, S.A. in performing the evaluation of its corporate governance, identifying areas for improvement in governance with possible action plans, on the terms set out in the Code of Good Governance for Listed Companies approved by the National Securities Market Commission.

The evaluation has been performed on the basis of the review of the Company's Annual Reports for fiscal year 2016 and of the Company's corporate documentation and interviews with Independent Directors and the Deputy Secretary of the Board of Directors.

The results obtained in this external evaluation were satisfactory, highlighting certain highly positive aspects of the Company's corporate governance system, and various action plans were established in those areas identified as improvable.

3.3 Global justification

In reviewing or preparing, as appropriate, the proposals for re-election, and for ratification and appointment, the Nominating, Compensation and Corporate Governance Committee has taken into account all of the above aspects, as well as the suitability of the Directors' professional profiles to the scope of the Company's business and its international nature, and the needs of the Board to be able to effectively perform its supervisory and control functions.

In this respect, the professional experience, training and profile of the Directors whose re-election or ratification and appointment is submitted to the Shareholders' Meeting for approval evidences in all cases their merits and competence to hold the position of Director, and their experience and knowledge in industries and

matters that are diverse and relevant for the Company, which ensures the quality of debate within the Board of Directors.

The Nominating, Compensation and Corporate Governance Committee has particularly evaluated (i) the contribution of the Directors whose re-election is proposed to the sound functioning of the Board of Directors and to the effective performance of its supervisory and control duties, (ii) the renewal of the Board of Directors that arises from the proposals for ratification and appointment by the Shareholders' Meeting that, moreover, lead to maintain a majority of independent Directors, and (iii) the fulfillment by all of the Directors of the requirements of good standing, suitability, caliber, competence, qualifications, training, availability and commitment to the duties required to hold the position, and the fact that none of them are subject to any ground of disqualification, prohibition or permanent conflict of interest.

In any event, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee has verified that the proposals for re-election, and for ratification and appointment of Directors relate to persons of recognized caliber, competence and experience, who are willing to devote the time and effort required to perform their duties, taking special care in the selection of the persons to be appointed as Independent Directors.

By virtue thereof, following the detailed analysis of the needs of the Board of Directors, considering the shareholder structure of the Company, the diversity of experiences and knowledge, and the resulting composition of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee considers that the proposals for re-election and for ratification and appointment of Directors to be submitted to the Shareholders' Meeting are suitable and in the best interest of the Company.

4. PROPOSALS OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE REGARDING THE RE-ELECTION, AND THE RATIFICATION AND APPOINTMENT OF INDEPENDENT DIRECTORS

In accordance with article 529 decies.4 of the Capital Companies Law, with article 10.2 of the Regulations of the Board of Directors and with the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors, proposals for ratification, re-election and appointment of independent Directors must come from the Nominating, Compensation and Corporate Governance Committee.

In this respect, it is placed on record that the Nominating, Compensation and Corporate Governance Committee of the Company makes the following proposals for re-election and for ratification and appointment of an independent Directors:

The Nominating, Compensation and Corporate Governance Committee proposes:

- The re-election of Mr. Luiz Fernando Furlán and of Mr. Francisco Javier de Paz Mancho, for a bylaw term of four years, with the classification of independent Directors.

- The ratification of the appointment by co-option of Ms. María Luisa García Blanco, and her appointment as Director, for the bylaw term of four years, with the classification of independent Director.

With respect to these proposals, the Nominating, Compensation and Corporate Governance Committee has evaluated in the detail the professional and personal profiles of the candidates, the fulfillment of the requirements of commercial and professional good standing, that their knowledge, competences and experience are suitable to perform their duties as Directors of the Company and they have the capacity to properly devote themselves to discharging their office and to effectively contribute to the governing bodies of the Company so that they may perform their duties with the highest standards of quality and efficiency.

➤ **Mr. LUIZ FERNANDO FURLÁN**

Professional and biographical profile and noteworthy experience

Born in Brazil, 29th of July 1946.

He is graduated in Chemical Engineering from FEI (Industrial Engineering Faculty of São Paulo) and in Business Administration from University of Santana - São Paulo, with specialization in financial administration from Fundação Getúlio Vargas – São Paulo.

He is currently a member of the Board of Directors of BRF, S.A. (Brazil), and Telefônica Brasil, S.A. (Brazil).

He was Minister of Development, Industry and Foreign Trade of the Govern of Brazil from 2003 to 2007.

Previously, he was Chairman of the Board of Directors of Sadia, S.A., Co-Chairman of the Board of Directors of BRF, S.A., member of the Board of Directors of AGCO Corporation (USA), and member of the Advisory/Consultive Board of Panasonic (Japan), Wal-Mart (USA) and Abertis Infraestructuras, S.A. (Spain).

The Nominating, Compensation and Corporate Governance Committee finds that the training and experience of Mr. Luiz Fernando Furlán gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

Suitability and merits

The Nominating, Compensation and Corporate Governance Committee has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

In particular, the Nominating, Compensation and Corporate Governance Committee has considered very positively the experience of Mr. Luiz Fernando Furlán, highlighting the recognized prestige of his professional career path both in the private and public sectors, where he has discharged several positions in Brazil and other countries.

By virtue thereof, the Nominating, Compensation and Corporate Governance Committee has come to a very favorable conclusion regarding the suitability of Mr. Luiz Fernando Furlán to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company, with the classification of independent Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

Class of director

Mr. Luiz Fernando Furlán has been nominated based on her personal and professional characteristics, with the Nominating, Compensation and Corporate Governance Committee having verified that the candidate is not currently involved in any of the circumstances provided for in Section 529 *duodecies.4* of the Companies Act and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. Furlán belongs to the class of independent Director.

➤ **MR. FRANCISCO JAVIER DE PAZ MANCHO**

Professional and biographical profile and noteworthy experience

Born in Valladolid, 24th of July 1958.

Mr. de Paz has a degree in Publicity and Information and studies in Law. He holds a PhD in Management from the IESE (University of Navarra).

He is Chairman of Telefónica Ingeniería de Seguridad, S.A., and Director of Telefónica de Argentina, S.A., Telefônica Brasil, S.A. and Telefónica Móviles México, S.A. de C.V.

From September 2014 to March 2016 was Chairman of Telefónica Gestión de Servicios Compartidos, S.A.U. From July 2006 to November 2014 he was Member of the Executive Committee of the Chamber's Board (Consejo Superior de Cámaras). From December 2008 to December 2012 he has been Chairman of Atento Inversiones y Teleservicios, S.A. From 2004 to 2007, he was Chairman of the National Company MERCASA. He has been also Deputy Chairman and Manager of Corporate Strategy Manager of the Panrico Donuts Group (1996-2004), General Manager of Internal Trade of the Ministry of Tourism and Commerce (1993-1996), Secretary of the Spanish Consumers Association (UCE), CEO of the Magazine "Revista Ciudadano" (1990-1993) and General Secretary of the Socialism Youth and Member of the Executive Council of PSOE (1984-1993). He also served the following posts and responsibilities: Director of the Tunnel of Cadí (2004-2006), Chairman of the Patronal Pan y Bollería Marca (COE) (2003-2004), Director of Mutua de Accidentes de Zaragoza (MAZ) (1998-2004), Director of the Panrico Group (1998-2004), Chairman of the Observatory of Trading of the Spanish Ministry of Tourism and Commerce (1994-1996), Member of the Economic and Social Board and its permanent Commission (1991-1993 and 1996-2000), and Director of Tabacalera, S.A. (1993-1996).

The Nominating, Compensation and Corporate Governance Committee finds that the training and experience of Mr. Francisco Javier De Paz Mancho gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

Suitability and merits

The Nominating, Compensation and Corporate Governance Committee has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

In particular, the Nominating, Compensation and Corporate Governance Committee has considered very positively the experience of Mr. Francisco Javier De Paz Mancho, highlighting his wide career path in several fields and areas both in the private and public sectors, with a great capacity of managing, coordinating and leading teams.

By virtue thereof, the Nominating, Compensation and Corporate Governance Committee has come to a very favorable conclusion regarding the suitability of Mr. Francisco Javier De Paz Mancho to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company, with the classification of independent Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

Class of director

Mr. Francisco Javier De Paz Mancho has been nominated based on her personal and professional characteristics, with the Nominating, Compensation and Corporate Governance Committee having verified that the candidate is not currently involved in any of the circumstances provided for in Section 529 *duodecies.4* of the Companies Act and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. De Paz belongs to the class of independent Director.

➤ **MS. MARÍA LUISA GARCÍA BLANCO**

Professional and biographical profile and noteworthy experience

Born in Córdoba (Spain), on October 25, 1965.

She holds a law degree from the University of Córdoba (Spain).

Government lawyer. Class of 1992.

Partner at law firm Salama García Blanco, SLP (Government lawyer on leave of absence since October 2013), the main practices of the firm being: administrative and constitutional law, advice and technical defense of credit institutions, civil and commercial litigation, and arbitration.

Previously, she was Deputy Director-General of Constitutional Law and Human Rights and Government Lawyer-Head of the Constitutional Law and Human Rights Department, where she conducted constitutional law proceedings before the Constitutional Court (actions for unconstitutionality and jurisdictional conflicts between the central government and regional governments, appeals for protection of constitutional rights, issues of unconstitutionality and the Bilateral Central-Regional Government Commission). Agent of the Kingdom of Spain before the European Court of Human Rights, where she has mainly performed the following activities: management and coordination of the Spanish delegation made up of representatives from the different Ministries for defense of the report by the

Kingdom of Spain before the various UN Committees in nonjudicial proceedings (Committee against Torture; Universal Periodic Review of Spain by the Human Rights Council; Committee on the Rights of the Child; Human Rights Committee and Committee on the Elimination of Racial Discrimination; Defense of the Kingdom of Spain before the various UN Committees in individual claims and before the European Court of Human Rights in individual claims), and chief coordinator of the Spanish delegation before the various UN Committees in Geneva (2002-2013).

She was also previously a government lawyer at the Constitutional Court (2000-2002), in the Studies and Research Bureau of the Ministry of Justice (1999-2000), at the Ministry of Agriculture, Fisheries and Food (1993-1999), in Caceres (1992-1993), as a Member of the Caceres Provincial Just Compensation Panel. She has also worked as: Secretary of the Board of Directors of Sociedad Estatal de Infraestructuras Agrarias del Norte (SEIASA DEL NORTE), and of its Audit and Control Committee (1999-2010), Director of Sociedad Estatal de Infraestructuras Agrarias (SEIASA) (2010-2013), Director of Sociedad Estatal de Aguas de la Cuenca del Norte (ACUANORTE) (2009-2012) and of Sociedad Estatal de Aguas de las Cuencas de España (AcuaEs) (2012-2013), and has carried out coordination and cooperation activities for the promotion and defense of human rights in Uruguay (2006), Colombia (2007 and 2008), Chile (2009) and Guatemala (2010).

She holds the Cross of Honor of the Order of St. Raymond of Penyafort (2006) and is a Corresponding Member of the Royal Academy of Jurisprudence and Legislation (2014).

The Nominating, Compensation and Corporate Governance Committee finds that the training and experience of Ms. María Luisa García Blanco gives her quite valuable and useful knowledge for the performance thereby as Director of the Company.

Suitability and merits

The Nominating, Compensation and Corporate Governance Committee has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

In particular, the Nominating, Compensation and Corporate Governance Committee has taken a very positive view of her extensive international experience in regulatory, administrative and constitutional law, and her notable work in defense of human rights before various organizations and institutions, at both domestic and international level. The candidate's merits in the field of law are illustrated by her status as a Corresponding Member of the Royal Academy of Jurisprudence and Legislation and her receipt of the Cross of Honor of the Order of St. Raymond of Penyafort.

In addition, independently of her recognized personal merits and abilities, the appointment of Ms. García Blanco ensures the preservation of the number of women sitting on the Board of Directors, which evidences the Company's commitment to promoting diversity.

Availability

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company, with the classification of independent Director.

Absence of disqualifications and conflicts

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

Class of director

Ms. María Luisa García Blanco has been nominated based on her personal and professional characteristics, with the Nominating, Compensation and Corporate Governance Committee having verified that the candidate is not currently involved in any of the circumstances provided for in Section 529 *duodecies*.4 of the Companies Act and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Ms. García Blanco belongs to the class of independent Director.

In addition, the Nominating, Compensation and Corporate Governance Committee places on record its approval to release the candidate Ms. María Luisa García Blanco from compliance with the requirement set forth in article 30 of the Bylaws regarding the holding for more than three years in advance of a number of shares of the Company representing a par value of at least 3,000 euros in order to be appointed as a Director of the Company.

5. REPORTS OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE ON THE PROPOSALS FOR RE-ELECTION OF NON-INDEPENDENT DIRECTORS

In accordance with article 529 *decies*.6 of the Capital Companies Law, with article 10.2 of the Regulations of the Board of Directors and with the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors, proposals for ratification, re-election and appointment of non-independent Directors must be preceded by the relevant report from the Nominating, Compensation and Corporate Governance Committee.

For these purposes, the Nominating, Compensation and Corporate Governance Committee issues the following report on the proposal for re-election, for a new period

of four years, of the Director Mr. José María Abril Pérez, with the classification of nominee Director.

➤ **MR. JOSÉ MARÍA ABRIL PÉREZ**

Evaluation of Mr. José María Abril Pérez's performance

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as Director and the contribution of Mr. José María Abril Pérez to the Board of Directors since his first appointment in July 2007 and, particularly, in his last mandate (after the reelection by the General Shareholders' Meeting held on May 31, 2013).

It has also taken into account the dedication of Mr. José María Abril Pérez to holding the position of Director of the Company, as well as his knowledge, skills and experience, which in the opinion of this Nominating, Compensation and Corporate Governance Committee allow him to properly perform his duties.

As a result of all of the foregoing, the Nominating, Compensation and Corporate Governance Committee has concluded that Mr. Abril Pérez has quite satisfactorily performed his duties as Director, contributes to the corporate bodies of the Company having a balanced composition that is suitable to the needs thereof, and provides significant cooperation for them to be able to perform their duties with the quality, professionalism and dedication required for the full effectiveness thereof.

Evaluation of the conditions required to hold the position

The Nominating, Compensation and Corporate Governance Committee has also assessed the conditions necessary for holding the position of Director of the Company by Mr. José María Abril Pérez, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

- **Appointment and classification**

Mr. José María Abril Pérez was appointed as a Director of the Company for the first time on July 25, 2007, and was reelected for the first time by resolution of the shareholders at the General Shareholders' Meeting held on May 31, 2013 for a five-years period. Therefore, his current appointment as Director expires on May 31, 2018.

Mr. José María Abril Pérez is appointed at the proposal of Banco Bilbao Vizcaya Argentaria, S.A., the direct holder, as of December 31, 2017, of 5.17% of the share capital of the Company, for which reason he is classified as a nominee Director.

- **Professional training and experience**

Born in Burgos, on the 19th of March of 1952.

Degree in Economics from the Deusto Business University and professor at such university for nine years.

In 2002 he was appointed as General Manager of Wholesale Banking and Investments and as Member of the Steering Committee of Banco Bilbao Vizcaya Argentaria, S.A.; he currently has pre-retirement status.

From 1975 to 1982 he was the Chief Financial Officer of Sociedad Anónima de Alimentación (SAAL). From then and until he joined Grupo Banco Bilbao Vizcaya Argentaria, he served as Chief Financial Officer of Sancel-Scott Iberica. In 1985 he joined Banco Bilbao as the Head of Corporate Banking Investment. Subsequently, from January to April 1993, he was Executive Coordinator of Banco Español de Crédito, S.A. In 1998 he was appointed as General Manager of the Industrial Group, and in 1999, as a member of the Management Committee of the BBV Group. He has been a board member, among other companies, of Repsol, Iberia and Corporación IBV, as well as Deputy Chairman of Bolsas y Mercados Españoles (BME).

- **Suitability**

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. José María Abril Pérez to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

- **Conclusion**

As a result of all of the foregoing, based on the performance of the candidate and the personal and professional qualifications thereof, the Nominating, Compensation and Corporate Governance Committee finds that Mr. José María Abril Pérez has sufficient knowledge and experience to hold the position of Director and meets the suitability requirements applicable thereto, for which reason it has been resolved to submit a favorable report thereon to the Board of Directors to propose to the shareholders at the Company's General Shareholders' Meeting the re-election thereof as Director for the bylaw-mandated four-year period with the classification of nominee Director.

6. REPORTS OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE ON THE PROPOSALS FOR RATIFICATION AND APPOINTMENT OF NON-INDEPENDENT DIRECTORS

In accordance with article 529 decies.6 of the Capital Companies Law, with article 10.2 of the Regulations of the Board of Directors and with the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors, proposals for ratification, re-election and appointment of non-independent Directors must be preceded by the relevant report from the Nominating, Compensation and Corporate Governance Committee.

For these purposes, the Nominating, Compensation and Corporate Governance Committee issues the following reports on the proposals for ratification and appointment, for a new period of four years, of the Directors Mr. Ángel Vilá Boix with the classification of executive Director, and of Mr. Jordi Gual Solé with the classification of nominee Director.

➤ **MR. ÁNGEL VILÁ BOIX**

Evaluation of Mr. Ángel Vilá Boix's performance

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as Director and the contribution of Mr. Ángel Vilá Boix to the Board of Directors since his appointment by co-option by the Board of Directors on July 2017.

It has also taken into account the dedication of Mr. Ángel Vilá Boix to holding the position of Director of the Company, as well as his knowledge, skills and experience, which in the opinion of this Nominating, Compensation and Corporate Governance Committee allow him to properly perform his duties.

As a result of all of the foregoing, the Nominating, Compensation and Corporate Governance Committee has concluded that Mr. Vilá Boix has quite satisfactorily performed his duties as Director, contributes to the corporate bodies of the Company having a balanced composition that is suitable to the needs thereof, and provides significant cooperation for them to be able to perform their duties with the quality, professionalism and dedication required for the full effectiveness thereof.

Evaluation of the conditions required to hold the position

The Nominating, Compensation and Corporate Governance Committee has also assessed the conditions necessary for holding the position of Director of the Company by Mr. Ángel Vilá Boix, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

- **Appointment and classification**

Mr. Ángel Vilá Boix was appointed as a Director of the Company by the Board of Directors on July 26, 2017.

Mr. Ángel Vilá Boix is currently the Chief Operating Officer of Telefónica, S.A. and, therefore, he is classified as an executive Director.

- **Professional training and experience**

He was born in Barcelona, 29th of July 1964.

Mr. Vilá graduated in Industrial Engineering from Universitat Politècnica de Catalunya in Barcelona and holds a MBA from Columbia Business School

where he studied with a Fulbright La Caixa fellowship. He is a Trustee in the Telefónica Foundation.

Mr. Vilá joined Telefónica in 1997. He held positions of Group Controller, CFO of Telefónica Internacional, Group Head of Corporate Development and Chief Financial and Corporate Development Officer. In 2015 he was appointed Chief Strategy and Finance Officer.

Prior to joining Telefónica, he held positions at Citigroup, McKinsey&Co, Ferrovial and Planeta.

In the financial sector, he has served in the Board of directors of Banco Bilbao Vizcaya Argentaria (BBVA) and on the Advisory Panel of Macquarie MEIF Infrastructure funds.

In the TMT sector (Technology, Media and Telecom), he was Chairman of Telefónica Contenidos, Vice Chairman of Telco Spa (Italy) and Board member of Endemol, Digital+, Atento, Telefonica Czech, CTC Chile, Indra SSI and Terra Lycos.

Institutional Investor nominated Angel Vilá as the Best CFO in European Telecoms in 2015. He was also honored with the Thomson Reuters Extel Awards as Best CFO in Spain both in 2013 and 2014, as well as Best CFO for Telecommunications in Europe in 2014.

- **Suitability**

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. Ángel Vilá Boix to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as executive Director of the Company.

- **Conclusion**

As a result of all of the foregoing, based on the performance of the candidate and the personal and professional qualifications thereof, the Nominating, Compensation and Corporate Governance Committee finds that Mr. Ángel Vilá Boix has sufficient knowledge and experience to hold the position of Director and meets the suitability requirements applicable thereto, for which reason it has been resolved to submit a favorable report thereon to the Board of Directors to propose to the shareholders at the Company's General Shareholders' Meeting the ratification and appointment as Director for the bylaw-mandated four-year period with the classification of executive Director.

➤ **MR. JORDI GUAL SOLÉ**

Evaluation of Mr. Jordi Gual Solé's performance

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as Director and the contribution of Mr. Jordi Gual Solé to the Board of Directors since his appointment by co-option in January 2018.

It has also taken into account the dedication of Mr. Jordi Gual Solé to holding the position of Director of the Company, as well as his knowledge, skills and experience, which in the opinion of this Nominating, Compensation and Corporate Governance Committee allow him to properly perform his duties.

As a result of all of the foregoing, the Nominating, Compensation and Corporate Governance Committee has concluded that Mr. Gual Solé has quite satisfactorily performed his duties as Director, contributes to the corporate bodies of the Company having a balanced composition that is suitable to the needs thereof, and provides significant cooperation for them to be able to perform their duties with the quality, professionalism and dedication required for the full effectiveness thereof.

Evaluation of the conditions required to hold the position

The Nominating, Compensation and Corporate Governance Committee has also assessed the conditions necessary for holding the position of Director of the Company by Mr. Jordi Gual Solé, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

- **Appointment and classification**

Mr. Jordi Gual Solé was appointed as a Director of the Company for the first time on January 31, 2018.

Mr. Jordi Gual Solé is appointed at the proposal of Caixabank, S.A., the direct holder, as of December 31, 2017, of 5.01% of the share capital of the Company, for which reason he is classified as a nominee Director.

- **Professional training and experience**

Born in Lérida in 1957.

He holds a PhD in Economics (1987) from the University of California at Berkeley and is a professor of Economics at the IESE Business School and a Research Fellow at the Centre for Economic Policy Research (CEPR) in London.

At present, he is Chairman of CaixaBank since July 2016. Previously, he was Head of Strategic Planning and Studies for CaixaBank and Director General of Planning and Strategic Development for CriteriaCaixa. He joined the “la Caixa” group in 2005.

He has served as an economic advisor for European Commission’s Directorate-General for Economic and Financial Affairs in Brussels and as a visiting professor at the University of California at Berkeley.

He is currently a member of the Boards of Directors of Telefonica, Repsol and Erste Bank. He is a member of the Market Monitoring Group of the Institute of International Finance (IIF). He is also a member of the Board of the European Corporate Governance Institute, Chairman of FEDEA, Vice President of the Círculo de Economía and serves on the boards of the CEDE Foundation, the Institució Cultural del CIC, the Real Instituto Elcano, and of the Fundación Cotec para la Innovación.

In 1999 he received the Research Award of the European Investment Bank, and in 1979 he graduated with honours in Economics and Business.

- **Suitability**

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. Jordi Gual Solé to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

- **Conclusion**

As a result of all of the foregoing, based on the performance of the candidate and the personal and professional qualifications thereof, the Nominating, Compensation and Corporate Governance Committee finds that Mr. Jordi Gual Solé has sufficient knowledge and experience to hold the position of Director and meets the suitability requirements applicable thereto, for which reason it has been resolved to submit a favorable report thereon to the Board of Directors to propose to the shareholders at the Company's General Shareholders' Meeting the ratification and appointment as Director for the bylaw-mandated four-year period with the classification of nominee Director.

7. CONCLUSION

As a result of all the foregoing, having regard to the shareholder structure of the Company, to the needs that its corporate bodies currently have, to the structure, size and composition at present and projected by the Board of Directors and to the personal and professional qualities of the candidates, the Nominating, Compensation and Corporate Governance Committee considers that the proposals for re-election and for ratification and appointment of Directors to be submitted to the next Shareholders' Meeting are suitable and in the best interest of the Company.

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Madrid, April 24, 2018